

**REPORT OF EXAMINATION**

**HAZARD INDEPENDENT  
SCHOOL DISTRICT**

**FOR THE SCHOOL YEAR  
ENDED JUNE 30, 2008**

**Gaw & Associates, PLLC**

*Certified Public Accountants*

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***Gaw & Associates, PLLC***  
CERTIFIED PUBLIC ACCOUNTANTS

**Independent Auditor's Report**

To the Board of Education  
Hazard Independent School District

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Hazard Independent School District, as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Hazard Independent School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the provisions of Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Guide for Auditing Local School Districts' Fiscal Records*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Hazard Independent School District, as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2008, on our consideration of the Hazard Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 11 and 36 through 41 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hazard Independent School District's basic financial statements. The additional information shown on pages 42 through 53 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of Hazard Independent School District. The additional information shown on pages 42 through 53 and the schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Troy A. Gaw, CPA  
Partner

Gaw, & Associates, PLLC  
Harlan, Kentucky

October 31, 2008



## **Management Discussion & Analysis (MD&A)**

The discussion and analysis of Hazard Independent School District's financial performance provides an overview of the district's financial activities for the fiscal year ended June 30, 2008 ("FY 2008"). The intent of this discussion and analysis is to look at the district's financial performance as a whole. Readers should also review the basic financial statements along with the notes to these statements to enhance their understanding of the district's financial performance.

### **Financial Highlights**

Key financial highlights for FY 2008 are as follows:

- The ending cash balance for the District was \$1.3 million in 2008 and \$1.0 million in 2007.
- From 2007 to 2008 total general fund revenue increased by 10%.
- Among major funds, the General Fund had \$6.7 million in revenue, which primarily consists of ad valorem, utility, federal and state funding (the SEEK program). There were \$6.4 million in expenditures.

### **Using the Annual Report**

This annual financial report contains, in addition to this Management Discussion and Analysis, the district's basic financial statements and supplementary information. These three sections together provide a comprehensive overview of the district's finances. The basic financial statements are comprised of two kinds of statements that present financial information from different perspectives, district-wide and funds.

- District-wide financial statements, which comprise the first two statements, provide both short-term and long term information about the district's overall financial position.
- Individual parts of the district, which are reported as fund financial statements, focus on reporting the district's operation in more detail. These fund financial statements comprise the remaining statements.

Notes to the financials, which are included just following the basic financial statements, provide more detailed data and explain some of the information in the statements. The supplementary information sections provide further explanations and additional support for the financial statements, including a comparison of the district's budget to actual revenues and expenditures for the year.

Additional elements of this report include sections on State and Federal Award Compliance and Findings and Recommendations.

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## **Overview of the Financial Statements**

### **District-wide Financial Statements – Statement of Net Assets and the Statement of Activities**

While this document contains specific information on the many funds used by the district to provide programs and activities, the view of the district as a whole looks at all financial transactions and asks the question, “How did we do financially during the previous year?” The *Statement of Net Assets* and the *Statement of Activities* answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year revenues and expenses regardless of when cash is received or paid.

These two statements report the district’s net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the district as a whole, the financial position of the district has either improved or diminished. The causes of this change may be the result of many factors, some financial, and some not. Non-financial factors include the district’s property tax base, current property tax laws in Kentucky, facility condition, required educational programs and other factors.

In the *Statement of Net Assets* and the *Statement of Activities*, the district reports governmental activities. Governmental activities are the activities where most of the district’s programs and services are reported including, but not limited to, instruction, support services, operation and maintenance of plants and facilities, pupil transportation and extracurricular activities. The district does not have any business-type activities.

The district-wide financial statements can be found on pages 12 – 13 of this report.

### **Fund Financial Statements**

The analysis of the district’s major funds begins on page 14. Fund financial reports provided detailed information about the district’s major funds. The district uses several funds to account for a multitude of financial transactions. However, these fund financial statements focus on the district’s most significant funds and not the district as a whole. The district’s major governmental funds are the General Fund, Special Revenue Fund, and the Capital Outlay Fund.

### **Governmental Funds**

Nearly all of this district activities are reported in governmental funds. Governmental fund financial statements focus on how money flows into and out of these funds and the balance left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the district’s general government operations and the basic services it provides. Governmental fund information helps you to determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the *Statement of Net Assets* and the *Statement of Activities*) and governmental funds is reconciled in the financial statements.

### **Fiduciary Funds**

The district is the trustee, or fiduciary, for student body funds. All of the district’s fiduciary activities are reported in a separate *Statement of Fiduciary Net Assets and Liabilities* on page 21. We exclude these activities from the district’s other financial statements because the district cannot use these assets to finance its operations.

## Notes to the Basic Financial Statement

The notes provide additional information that is essential to a full understanding of the data provided in the district-wide and fund financial statements. The notes to the financial statements can be found starting on page 23 of this report.

### Financial analysis of the District as a Whole

As stated earlier the *Statement of Net Assets* and the *Statement of Activities* provide a financial glimpse of the District as a whole. Table 1 (Net Assets Summary) provides a summary of the district's net assets for FY 2008 as contained in the Statement of Net Assets and compares that information to FY 2007. As the table shows, our total net assets as of June 30, 2008 were \$1.1 million, an increase of \$.5 million from the prior year.

**Table 1: Summary of Net Assets**

	June 30, 2007	June 30, 2008	Change	Percentage Change
<b>Assets</b>				
Current and Other Assets	\$ 1,734,640	\$ 2,315,978	\$ 581,338	34%
Capital Assets	3,199,916	3,173,117	(26,799)	-1%
<i>Total Assets</i>	<u>4,934,556</u>	<u>5,489,095</u>	<u>554,539</u>	<u>11%</u>
<b>Liabilities</b>				
Current Liabilities	563,800	664,698	100,898	18%
Long-Term Liabilities	3,822,339	3,748,830	(73,509)	-2%
<i>Total Liabilities</i>	<u>4,386,139</u>	<u>4,413,528</u>	<u>27,389</u>	<u>1%</u>
<b>Net Assets</b>				
Invested in Capital Assets, Net of Debt	(622,423)	(687,068)	(64,645)	10%
Restricted	693,117	797,063	103,946	15%
Unrestricted	477,723	965,572	487,849	102%
<i>Total Net Assets</i>	<u>\$ 548,417</u>	<u>\$ 1,075,567</u>	<u>\$ 527,150</u>	<u>96%</u>

In comparing FY 2008 to the prior year we note the following:

- Current assets increased because of a conscious effort to decrease operating costs.
- Long-term liabilities decreased because of a bond payments.



Table 2 (Change in Net Assets) reflects data extracted from the *Statement of Activities* and shows the changes in net assets from FY 2007 to FY 2008.

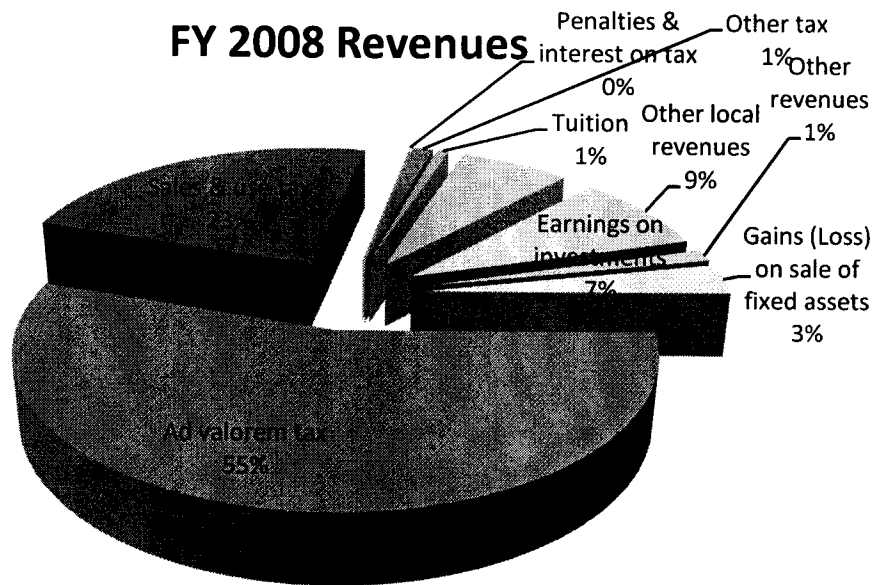
**Table 2: Changes in Net Assets**

	June 30, 2007	June 30, 2008	Change	Percentage Change
<b>Revenues</b>				
Program Revenues:				
Charges for Services	\$ 221,109	\$ 221,126	\$ 17	0%
Operating Grants and Contributions	6,508,471	7,024,688	516,217	8%
Capital Grants and Contributions	52,719	101,240	48,521	92%
General Revenues:				
Ad valorem tax	954,781	981,404	26,623	3%
Sales & use tax	423,538	411,443	(12,095)	-3%
Penalties & interest on tax	151	183	32	21%
Other tax	11,736	22,750	11,014	94%
Tuition	600	12,950	12,350	2058%
Earnings on investments	90,240	120,451	30,211	33%
Other local revenues	67,106	152,828	85,722	128%
Total local revenue	1,548,152	1,702,009	153,857	10%
Other revenues	69,436	22,487	(46,949)	-68%
Gains (Loss) on sale of fixed assets	-	59,256	59,256	100%
<b>Total Revenues</b>	<b>8,399,887</b>	<b>9,130,806</b>	<b>730,919</b>	<b>9%</b>
<b>Program Expenses:</b>				
Instruction	\$ 4,544,984	\$ 5,017,150	\$ 472,166	10%
Support services				
Student	261,972	290,973	29,001	11%
Instruction staff	262,630	325,432	62,802	24%
District administration	500,698	445,139	(55,559)	-11%
School administration	379,763	391,048	11,285	3%
Business	59,203	385,647	326,444	551%
Plant operation and maintenance	796,088	774,937	(21,151)	-3%
Student transportation	150,255	211,656	61,401	41%
Central Office	280,440	11,291	(269,149)	-96%
Total support services	2,691,049	2,836,123	145,074	5%
Community service activities	110,567	105,948	(4,619)	-4%
Facilities acquisition and construction	92,202	103,916	11,714	13%
Bond Issuance Cost	1,377	1,377	-	100%
Interest Expense	201,612	187,196	(14,416)	-7%
Food Service	481,628	552,417	70,789	15%
<b>Total Expenses</b>	<b>8,123,419</b>	<b>8,804,127</b>	<b>680,708</b>	<b>8%</b>
<b>Change in Net Assets</b>	<b>\$ 276,468</b>	<b>\$ 326,679</b>	<b>\$ 50,211</b>	<b>18%</b>

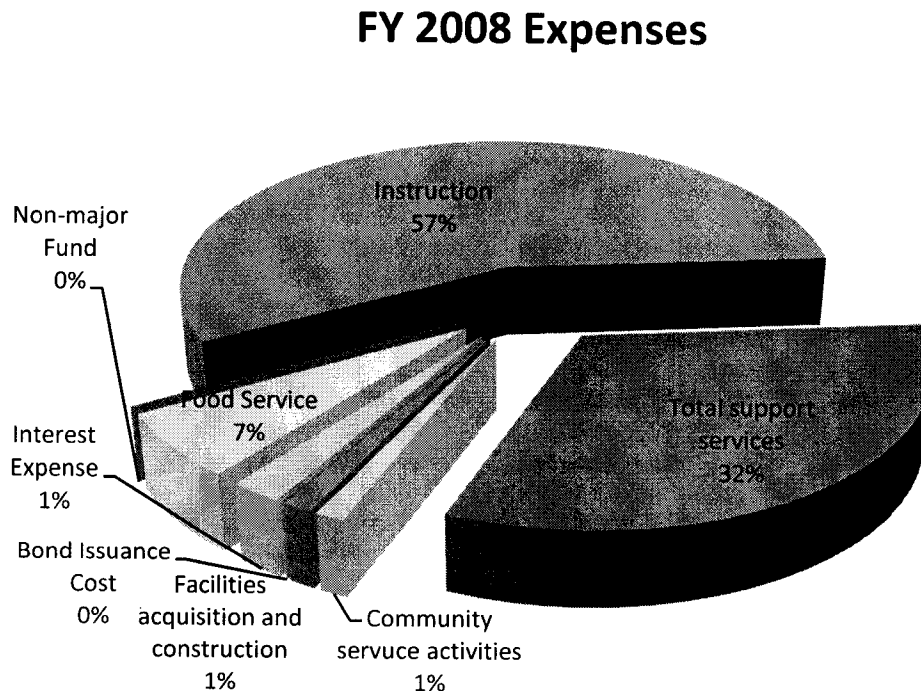
The most significant changes resulted from the following:

- Total local revenue increased because of an increase in taxes received.
- Operating Grants and Revenues increased because of an increase in grants received.
- Depreciation Expense was allotted to individual expense accounts this year.

District programs for FY 2008 cost \$8.8 million. To support those programs the district garnered \$7.3 million in program revenues. The balance of support came from property taxes and other general revenues. The chart below shows FY 2008 revenues by category.



Instruction comprises 57% of district expenses. Support service expenses make up 32% of the total, with the balance being interest and fiscal charges. The following chart displays FY2008 expenses by category.



## Governmental Activities

The *Statement of Activities* on page 13 shows the cost of program services and the charges for services and grants offsetting those services. Table 3 (Net Cost of Services) extract information from the *Statement of Activities* and compares the net cost of services from one year to the next. It identifies the cost of those services supported by tax revenue and unrestricted state entitlements. The net cost of services increased by \$53,732 primarily due to increase in repairs.

**Table 3: Net Cost of Services**

	June 30, 2007	June 30, 2008	Change	Percentage Change
Instruction	\$ 677,456	\$ 730,140	\$ 52,684	8%
Support services				
Student	52,197	38,444	(13,753)	-26%
Instruction staff	38,706	43,103	4,397	11%
District administration	99,762	63,800	(35,962)	-36%
School administration	75,666	51,742	(23,924)	-32%
Business	11,796	49,621	37,825	321%
Plant operation and maintenance	158,617	197,972	39,355	25%
Student transportation	29,938	(27,195)	(57,133)	-191%
Central office	55,877	11,291	(44,586)	-80%
Community service activities	596	13,832	13,236	2221%
Facilities acquisition and construction	-	103,916	103,916	100%
Bond Issuance Cost	1,377	1,377	-	100%
Interest Expense	167,992	145,668	(22,324)	-13%
<i>Total Expenses</i>	<u>\$ 1,369,979</u>	<u>\$ 1,423,711</u>	<u>\$ 53,732</u>	<u>4%</u>

The program expense categories shown in Table 3 are summarized below.

- “Instruction” expenses include activities directly dealing with the teaching of pupils and the interaction between teacher and pupil.
- “Instruction-related services” and “pupil services” include the activities involved with assisting staff with the content and process of teaching to pupils, as well as direct non-instructional services to students (including health, library, transportation, and other services).
- “General administration” costs include expenses associated with the administrative and financial supervision of the district.
- “Plant services” involve keeping the school grounds, buildings, and equipment in good working condition.
- “Facilities acquisition and construction” represents the difference between the amount spent on our facilities and the amount capitalized.
- “Interest and fiscal charges” involve the transactions associated with the payment of interest and other charges related to debt of the district.

## Financial Analysis of the District's Funds

The district's governmental funds report a combined fund balance of \$1.8 million, which is significantly increased from last year's total of \$1.4 million. Table 4 (Governmental Fund Balances) provides an analysis of the district's fund balances and the total change in fund balances from the prior year.

**Table 4: Governmental Fund Balances**

Fund:	June 30, 2007	June 30, 2008	Change	Percentage Change
General	\$ 702,028	\$ 1,065,090	\$ 363,062	52%
Special Revenue	(1,206)	-	1,206	0%
Capital Outlay	454,967	502,467	47,500	0%
Building Fund	129,089	149,471	20,382	16%
Construction Fund	13,354	10,149	(3,205)	-24%
Debt Service Fund	95,707	95,707	-	100%
<i>Total Expenses</i>	<u>\$ 1,393,939</u>	<u>\$ 1,822,884</u>	<u>\$ 428,945</u>	<u>31%</u>

The following information helps explain the changes from the prior year.

- Operations

## General Fund Budgetary Highlights

The district's budget is prepared according to Kentucky law and is based on the modified accrual basis of accounting.

In Kentucky the public school fiscal year is July 1 – June 30; other programs, i.e. some federal programs, operate on a different program calendar, but are reflected in the district overall budget. By Kentucky statute the budget must have a minimum 2% contingency. This district adopted a budget for 2008 and 2009 that satisfies the statute requirement. The general fund revenues and expenditures for the 2008 and 2009 budget cycle is \$6.7 million and \$6.4 million respectively.

We do a draft, tentative and working budget. We made minor amendments the working budget for 2008 based upon unexpected changes in the revenues received or expenditures. The working budget is amended only if there is a significant change in revenues or expenditures. Revenue estimates increased by \$368,962 primarily due to higher than expected SEEK Allotment. Expenditure appropriations increased by \$533,702. Expenditure appropriation adjustments were made to reflect actual staffing, restoration of previously cut programs, increased cost of contracted services, and other changes during the year.

Major differences between final budget amounts and actual revenues and expenditures are identified as follows:

- On behalf adjustment
- KISTA Bus Purchase Debt

## Capital Assets and Debt Administration

### Capital Assets

At the end of the fiscal year, the district had \$7.6 million invested in land, building, equipment (including computer equipment, furniture and vehicles), and construction in progress. Table 5 (Capital Assets) shows FY 2008 balances as compared to FY 2007.

**Table 5: Capital Assets**

	June 30, 2007	June 30, 2008	Change	Percentage Change
Land	\$ 712,555	\$ 712,555	\$ -	0%
Buildings and improvements	5,338,747	5,344,547	5,800	0%
Technology Equipment	711,603	713,989	2,386	0%
Vehicles	487,259	580,270	93,011	19%
General equipment	245,763	245,763	-	0%
Construction in progress	-	-	-	100%
Total	7,495,927	7,597,124	101,197	1%
Less: Accumulated Depreciation	4,296,011	4,489,286	193,275	4%
Net Capital Assets	\$ 3,199,916	\$ 3,107,838	\$ (92,078)	-3%

In addition we purchased a new vehicles thus accounting for the difference in equipment value. For more information see Note C to the Basic Financial Statements.

### Long-Term Debt

At June 30, 2008 the district had \$4.0 million in long term debt obligations. The bulk of this total is debt service on general obligation bonds issued by the district to finance its construction and modernization program. The remaining \$191,758 in long term obligations is the amount of compensated absences liability recorded by the district at year end, an increase of \$89,243 from the prior year.

Table 6 (Long-Term Debt) shows the district's outstanding debt as of June 30, 2008 as well as comparable data for the prior year. A more detailed discussion is included in Note D to the Basic Financial Statements.

**Table 6: Long-Term Debt**

	June 30, 2007	June 30, 2008	Change	Percentage Change
General obligation bonds	\$ 3,955,847	\$ 3,812,835	\$ (143,012)	-4%
Compensated absences	102,515	191,758	89,243	87%
Net Capital Assets	\$ 4,058,362	\$ 4,004,593	\$ (53,769)	-1%

### **Factors bearing on the District's Future**

- Attendance percentage.
- Continued decrease of area population.
- Property valuation flux.
- Economic downturn

### **Contacting the District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, parents, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions regarding this report or need additional financial information, contact the District's Finance Department at (606) 436-3911 or 705 East Main Street, Hazard, Kentucky 41701.

Hazard Independent School District  
**Statement of Net Assets - District Wide**  
As of June 30, 2008

<b>ASSETS</b>	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>Current Assets</b>			
Cash and cash equivalents	\$ 1,244,725	\$ 83,212	\$ 1,327,937
Investments	312,289	-	312,289
Accounts receivable			
Taxes	205,385	-	205,385
Intergovernmental - State	72,400	-	72,400
Intergovernmental - Federal	246,888	12,876	259,764
Other	7,029	-	7,029
SFCC	3,347	-	3,347
Inventory	-	12,493	12,493
Bond Issuance Cost	19,627	-	19,627
Prepaid Debt Service	95,707	-	95,707
<b>Total current assets</b>	<b>2,207,397</b>	<b>108,581</b>	<b>2,315,978</b>
<b>Noncurrent Assets</b>			
Capital assets	7,597,124	223,738	7,820,862
Less: Accumulated depreciation	(4,489,286)	(158,459)	(4,647,745)
<b>Total noncurrent assets</b>	<b>3,107,838</b>	<b>65,279</b>	<b>3,173,117</b>
<b>Total assets</b>	<b>\$ 5,315,235</b>	<b>\$ 173,860</b>	<b>\$ 5,489,095</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Amount in excess of deposits	\$ 63,192	\$ -	\$ 63,192
Accounts payable	67,912	46	67,958
Accrued payroll and withholding obligations	(313)	-	(313)
Accrued interest payable	47,350	-	47,350
Deferred Revenue	230,748	-	230,748
Current portion of KISTA payable	48,563	-	48,563
Current portion of bonds payable	207,200	-	207,200
<b>Total current liabilities</b>	<b>664,652</b>	<b>46</b>	<b>664,698</b>
<b>Noncurrent Liabilities</b>			
Sick leave payable	191,758	-	191,758
KISTA Payable	249,572	-	249,572
Bonds payable	3,307,500	-	3,307,500
<b>Total noncurrent liabilities</b>	<b>3,748,830</b>	<b>-</b>	<b>3,748,830</b>
<b>Total liabilities</b>	<b>\$ 4,413,482</b>	<b>\$ 46</b>	<b>\$ 4,413,528</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	\$ (752,347)	\$ 65,279	\$ (687,068)
Restricted for:			
Encumbrances	26,776	-	26,776
Capital outlay	662,087	-	662,087
Bonded debt payments	95,707	12,493	108,200
Unrestricted	869,530	96,042	965,572
<b>Total net assets</b>	<b>\$ 901,753</b>	<b>\$ 173,814</b>	<b>\$ 1,075,567</b>

The accompanying notes to the financial statements are an integral part of these financial statements.

**Statement of Activities - District Wide**

For the year ended June 30, 2008

	Program Revenues			Net (Expense) Revenue and		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Changes in Net Assets		
				Governmental Activities	Business-type Activities	Total
<b>FUNCTIONS/PROGRAMS</b>						
<b>Governmental Activities</b>						
Instruction	\$ 5,017,150	\$ -	\$ 4,287,010	\$ -	\$ -	\$ (730,140)
Support services						
Student	290,973	-	252,529	(38,444)	-	(38,444)
Instruction staff	325,432	-	282,329	(43,103)	-	(43,103)
District administration	445,139	-	381,339	(63,800)	-	(63,800)
School administration	391,048	-	339,306	(51,742)	-	(51,742)
Business	385,647	-	336,026	(49,621)	-	(49,621)
Plant operation and maintenance	774,937	-	576,965	(197,972)	-	(197,972)
Student transportation	211,656	-	238,851	27,195	-	27,195
Central office	11,291	-	-	(11,291)	-	(11,291)
Community service activities	105,948	-	92,116	(13,832)	-	(13,832)
Facilities acquisition and construction	103,916	-	-	(103,916)	-	(103,916)
Bond Issuance Cost	1,377	-	-	(1,377)	-	(1,377)
Interest Expense	187,196	-	-	(145,668)	-	(145,668)
<b>Total governmental activities</b>	<b>8,251,710</b>	<b>-</b>	<b>6,786,471</b>	<b>(1,423,711)</b>	<b>-</b>	<b>(1,423,711)</b>
<b>Business-type Activities</b>						
Food service	552,417	221,126	238,217	-	(33,362)	(33,362)
<b>Total business-type activities</b>	<b>552,417</b>	<b>221,126</b>	<b>238,217</b>	<b>-</b>	<b>(33,362)</b>	<b>(33,362)</b>
<b>Total school district</b>	<b>\$ 8,804,127</b>	<b>\$ 221,126</b>	<b>\$ 7,024,688</b>	<b>\$ (1,423,711)</b>	<b>\$ (33,362)</b>	<b>\$ (1,457,073)</b>
<b>General Revenues</b>						
Ad valorem tax				\$ 981,404	\$ -	\$ 981,404
Sales & use tax				411,443	-	411,443
Penalties & interest on tax				183	-	183
Other tax				22,750	-	22,750
Tuition				12,950	-	12,950
Earnings on investments				113,746	6,705	120,451
Other local revenues				152,828	-	152,828
Other revenues				22,487	-	22,487
Gains (Loss) on sale of fixed assets				59,256	-	59,256
<b>Total General Revenues</b>				<b>1,777,047</b>	<b>6,705</b>	<b>1,783,752</b>
Change in net assets				353,336	(26,657)	326,679
Net assets - beginning				548,417	200,471	748,888
Net assets - ending				\$ 901,753	\$ 173,814	\$ 1,075,567

The accompanying notes to the financial statements are an integral part of these financial statements.



Hazard Independent School District

**Balance Sheet - Governmental Funds**

As of June 30, 2008

	General Fund	Special Revenue	Capital Outlay Fund	Nonmajor	Total Governmental Funds
<b>ASSETS</b>					
Cash and cash equivalents	\$ 582,638	\$ -	\$ 502,467	\$ 159,620	\$ 1,244,725
Investments	312,289	-	-	-	312,289
Accounts receivable					
Taxes	205,385	-	-	-	205,385
Intergovernmental - State	-	72,400	-	-	72,400
Intergovernmental - Federal	-	246,888	-	-	246,888
Other	7,029	-	-	-	7,029
Prepaid debt service	-	-	-	95,707	95,707
<b>Total assets</b>	<b>\$ 1,107,341</b>	<b>\$ 319,288</b>	<b>\$ 502,467</b>	<b>\$ 255,327</b>	<b>\$ 2,184,423</b>
Amount in excess of deposits	\$ -	\$ 63,192	\$ -	-	\$ 63,192
Accounts payable	42,564	25,348	-	-	67,912
Payroll taxes payable	(313)	-	-	-	(313)
Deferred revenue	-	230,748	-	-	230,748
<b>Total liabilities</b>	<b>42,251</b>	<b>319,288</b>	<b>-</b>	<b>-</b>	<b>361,539</b>
Reserved for:					
Encumbrances	26,776	-	-	-	26,776
Capital outlay	-	-	502,467	159,620	662,087
Bonded debt payments	-	-	-	95,707	95,707
Unreserved:					
Undesignated	1,038,314	-	-	-	1,038,314
<b>Total fund balances</b>	<b>1,065,090</b>	<b>-</b>	<b>502,467</b>	<b>255,327</b>	<b>1,822,884</b>
<b>Total liabilities and fund balances</b>	<b>\$ 1,107,341</b>	<b>\$ 319,288</b>	<b>\$ 502,467</b>	<b>\$ 255,327</b>	<b>\$ 2,184,423</b>

The accompanying notes to the financial statements are an integral part of these financial statements.

Hazard Independent School District  
**Balance Sheet - Governmental Funds**  
As of June 30, 2008

Total fund balances	\$ 1,822,884
Amounts reported for <i>governmental activities</i> in the statement of net assets are different	
Capital assets used in governmental activities are not financial resources and therefore are not	3,107,838
Bond issue costs are not current financial resources and, therefore, are not reported as assets in	19,627
Accounts receivables for SFCC are not current financial resources and therefore are not	3,347
Long-term portion of accumulated sick leave is not reported in the governmental fund balance sheet because it is not due and payable in the current period, but it is presented in the statement	(281,001)
Interest payable is not reported in the governmental fund balance sheet because it is not due and payable in the current period, but is presented in the statement of net assets.	(47,350)
Long-term liabilities, including bonds payable, are not due and payable in the current period	(3,723,592)
Net assets of governmental activities	<u>\$ 901,753</u>

The accompanying notes to the financial statements are an integral part of these financial statements.

## Hazard Independent School District

**Statement of Revenues, Expenditures, and Changes in Fund Balances -**

For the year ended June 30, 2008

<b>Revenues</b>	<b>General Fund</b>	<b>Special Revenue</b>	<b>Capital Outlay Fund</b>	<b>Nonmajor</b>	<b>Total Governmental Funds</b>
From local sources					
Ad valorem tax	\$ 878,292	\$ -	\$ -	\$ 103,112	\$ 981,404
Sales & use tax	411,443	-	-	-	411,443
Penalties & interest on tax	183	-	-	-	183
Other tax	22,750	-	-	-	22,750
Tuition	12,950	-	-	-	12,950
Earnings on investments	112,356	679	-	711	113,746
Other local revenues	152,828	-	-	-	152,828
State sources					
SEEK	3,908,736	-	-	-	3,908,736
Other	-	636,056	83,660	163,345	883,061
Expenditure Reimbursement	11,338	-	-	-	11,338
Revenue in lieu of tax	32,839	-	-	-	32,839
On behalf payments	1,113,052	-	-	-	1,113,052
SFCC	-	-	-	41,528	41,528
Federal sources					
Restricted through state	-	837,445	-	-	837,445
<b>Total revenues</b>	<b>6,656,767</b>	<b>1,474,180</b>	<b>83,660</b>	<b>308,696</b>	<b>8,523,303</b>
<b>Expenditures</b>					
Instruction	3,746,065	1,167,230	-	-	4,913,295
Support services					
Student	289,421	-	-	-	289,421
Instruction staff	207,948	115,626	-	-	323,574
District administration	437,049	-	-	-	437,049
School administration	388,875	-	-	-	388,875
Business	385,116	-	-	-	385,116
Plant operation and maintenance	661,253	-	-	-	661,253
Student transportation	273,744	-	-	-	273,744
Community service activities	-	105,573	-	-	105,573
Facilities acquisition and construction	-	100,000	-	3,916	103,916
Debt Service	-	-	-	387,182	387,182
<b>Total expenditures</b>	<b>6,389,471</b>	<b>1,488,429</b>	<b>-</b>	<b>391,098</b>	<b>8,268,998</b>
<b>Excess (deficit) of revenues over</b>	<b>267,296</b>	<b>(14,249)</b>	<b>83,660</b>	<b>(82,402)</b>	<b>254,305</b>
<b>Other Financing Sources (Uses)</b>					
Proceeds of long-term capital	(2,488)	-	-	93,011	90,523
Gain (Loss) on sale of equipment	59,256	-	-	-	59,256
Operating transfers in	123,288	21,757	-	345,654	490,699
Operating transfers out	(84,290)	(6,302)	(36,160)	(339,086)	(465,838)
<b>Total other financing sources:</b>	<b>95,766</b>	<b>15,455</b>	<b>(36,160)</b>	<b>99,579</b>	<b>174,640</b>
<b>Excess (deficit) of revenues and other financing sources over expenditures and other financing uses</b>	<b>363,062</b>	<b>1,206</b>	<b>47,500</b>	<b>17,177</b>	<b>428,945</b>
<b>Fund balance, Beginning</b>	<b>702,028</b>	<b>(1,206)</b>	<b>454,967</b>	<b>238,150</b>	<b>1,393,939</b>
<b>Fund balance, Ending</b>	<b>\$ 1,065,090</b>	<b>\$ -</b>	<b>\$ 502,467</b>	<b>\$ 255,327</b>	<b>\$ 1,822,884</b>

The accompanying notes to the financial statements are an integral part of these financial statements.

Hazard Independent School District

**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities**

For the year ended June 30, 2008

Net change in fund balances--total governmental funds	\$	428,945
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**Amounts reported for governmental activities in the Statement of Activities are different because:**

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.	(92,078)
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Bond issuance costs are amortized over the life of the related bonds on the statement of activities	(1,377)
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Bond and capital lease payments are recognized as expenditures of current financial resources in the governmental fund financial statements, but are reductions of liabilities in the statement of net assets.	236,023
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Bond proceeds are recognized as other financing sources and uses in the governmental fund statements but are increases of liabilities in the statement of net assets.	(93,011)
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Interest payments are recognized as expenditures of current financial resources in the governmental fund financial statements, but are expensed as incurred in the statement of activities.	(36,037)
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Accounts receivable for SFCC are not recognized as revenue of current financial resources in the governmental fund financial statements, but are increases of assets in the statement of net assets.	114
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Changes in non-current sick leave payable are not recognized as expenditures of current financial resources in the governmental fund financial statements, but are reductions or additions of liabilities in the statement of net assets	(89,243)
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Change in net assets of governmental activities	<u>\$</u>	<u>353,336</u>
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The accompanying notes to the financial statements are an integral part of these financial statements.

Hazard Independent School District

**Statement of Net Assets - Proprietary Funds**

As of June 30, 2008

<b>ASSETS</b>	<b>Food Service Fund</b>
<b>Current Assets</b>	
Cash and cash equivalents	\$ 83,212
Accounts Receivable	12,876
Inventory	12,493
<b>Total current assets</b>	<u>108,581</u>
<b>Noncurrent Assets</b>	
Furniture and equipment	223,738
Less: Accumulated depreciation	(158,459)
<b>Total noncurrent assets</b>	<u>65,279</u>
<b>Total assets</b>	<u><u>\$ 173,860</u></u>
<b>LIABILITIES</b>	
<b>Current Liabilities</b>	
Accounts payable	\$ 46
<b>Total current liabilities</b>	<u>46</u>
<b>Noncurrent Liabilities</b>	
<b>Total noncurrent liabilities</b>	<u>-</u>
<b>Total liabilities</b>	<u><u>\$ 46</u></u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	\$ 73,016
Restricted for:	
Inventory	12,493
Unrestricted	88,305
<b>Total net assets</b>	<u><u>\$ 173,814</u></u>

The accompanying notes to the financial statements are an integral part of these financial statements.

Hazard Independent School District

**Statement of Revenues, Expenses, and Changes in Net Assets - Proprietary Funds**

For the year ended June 30, 2008

	Food Service Fund
<b>Operating Revenues</b>	
Food service sales	\$ 219,977
Other operating revenues	1,149
<b>Total operating revenues</b>	<u>221,126</u>
<b>Operating Expenses</b>	
Salaries and wages	247,594
Professional and contract services	6,210
Supplies and materials	266,015
Payments to other funds	24,861
Depreciation	7,737
<b>Total operating expenses</b>	<u>552,417</u>
<b>Operating income (loss)</b>	<u>(331,291)</u>
<b>Nonoperating revenues (expenses)</b>	
Federal grants	233,174
State grants	5,043
On-Behalf payments	27,476
Commodities Received	32,236
Interest income	6,705
<b>Total nonoperating revenues (expenses)</b>	<u>304,634</u>
<b>Operating transfers</b>	
Transfers in (out)	<u>-</u>
<b>Net income (loss)</b>	<u>(26,657)</u>
<b>Total net assets, beginning</b>	<u>200,471</u>
<b>Total net assets, ending</b>	<u><u>\$ 173,814</u></u>

The accompanying notes to the financial statements are an integral part of these financial statements.

Hazard Independent School District

**Statement of Cash Flows - Proprietary Funds**

For the year ended June 30, 2008

	Food Service Fund
<b>Cash Flows from Operating Activities</b>	
Cash received from lunchroom sales	\$ 219,977
Cash received from other activities	1,149
Cash payments to employees for services	(248,581)
Cash payments to other funds	(24,861)
Cash payments to suppliers for goods and services	(227,202)
<b>Net cash from operating activities</b>	<u>(279,518)</u>
<b>Cash Flows from Capital Financing Activities</b>	
Acquisition of capital assets	
<b>Net cash from capital financing activities</b>	<u>-</u>
<b>Cash Flows from Noncapital Financing Activities</b>	
Nonoperating grants received	265,693
<b>Net cash from noncapital financing activities</b>	<u>265,693</u>
<b>Cash Flows from Investing Activities</b>	
Interest on investments	6,705
<b>Net cash flows from investing activities</b>	<u>6,705</u>
<b>Net increase in cash and cash equivalents</b>	(7,120)
<b>Cash and cash equivalents - beginning</b>	90,332
<b>Cash and cash equivalents - ending</b>	<u><u>\$ 83,212</u></u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities</b>	
Operating income (loss)	\$ (331,291)
<b>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities</b>	
Depreciation	7,737
Commodities usage	32,236
Changes in assets and liabilities:	
Accounts receivable	13,040
Inventory	(253)
Accounts payable	(987)
<b>Net Cash Provided by Operating Activities</b>	<u><u>\$ (279,518)</u></u>

The accompanying notes to the financial statements are an integral part of these financial statements.

Hazard Independent School District

**Statement of Fiduciary Net Assets - Fiduciary Funds**

As of June 30, 2008

<b>ASSETS</b>	<u>Trust/Agency Fund</u>
<b>Current Assets</b>	
Cash and cash equivalents	\$ 76,903
<b>Total current assets</b>	<u>76,903</u>
<b>Noncurrent Assets</b>	
<b>Total noncurrent assets</b>	<u>-</u>
<b>Total assets</b>	<u>\$ 76,903</u>
<b>LIABILITIES</b>	
<b>Current Liabilities</b>	
Due to student groups	\$ 76,903
<b>Total current liabilities</b>	<u>76,903</u>
<b>Noncurrent Liabilities</b>	
<b>Total noncurrent liabilities</b>	<u>-</u>
<b>Total liabilities</b>	<u>\$ 76,903</u>

The accompanying notes to the financial statements are an integral part of these financial statements.



Hazard Independent School District

**Statement of Changes in Fiduciary Net Assets - Fiduciary Funds**

For the year ended June 30, 2008

	<u>Trust/Agency Fund</u>
<b>Additions</b>	
Net interest and investment gains (losses)	\$ 6,472
Other additions	<u>866,995</u>
<b>Total additions</b>	<u>873,467</u>
<b>Deductions</b>	
Other deductions	<u>870,431</u>
<b>Total deductions</b>	<u>870,431</u>
<b>Change in net assets</b>	<u>3,036</u>
<b>Net assets - beginning</b>	<u>73,867</u>
<b>Net assets - ending</b>	<u><u>\$ 76,903</u></u>

The accompanying notes to the financial statements are an integral part of these financial statements.

## **Note A – Summary of Significant Accounting Policies**

The accounting and reporting framework and the more significant accounting principles and practices of Hazard Independent School District (District) are discussed in subsequent sections of this note. The remainder of the notes are organized to provide explanations, including required disclosures, of the District's financial activities for the fiscal year ended June 30, 2008.

### **Accounting Principles**

The District accounts for its financial transactions in accordance with the policies, procedures, applicable laws and regulations of the State of Kentucky. The accounting policies of the District conform to accounting principles generally accepted in the United States of America as prescribed by the U.S. Governmental Accounting Standards Board ("GASB") and the American Institute of Certified Public Accountants ("AICPA"); and it complies with the requirements of the appropriate version of contracts and grants of agencies from which it receives funds.

### **Reporting Entity**

The District is the level of government primarily accountable for activities related to public education. The governing authority consists of five elected officials whom, together constitute the Board of Education. The District's combined financial statements include the accounts of all its operations. The District evaluated whether any other entity should be included in these financial statements. The basic, but not the only, criterion for including a governmental department, agency, institution, commission, public authority, or other governmental organization in a governmental unit's reporting entity for general purpose financial reports is the ability of the governmental unit's elected officials to exercise over-sight responsibility over such agencies. Oversight responsibility implies that one governmental unit is dependent on another and that the dependent unit should be reported as part of the other. Oversight responsibility is derived from the governmental unit's power and includes, but is not limited to:

- Financial interdependency
- Selection of governing authority
- Designation of management
- Ability to significantly influence operations
- Accountability for fiscal matters

Accordingly, for the year ended June 30, 2008, the District does not have any component units and is not a component unit of any other reporting entity.

### **Hazard Independent Board of Education Finance Corporation**

In a prior year the Board of Education resolved to authorize the establishment of the Hazard Independent School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) (the "Corporation") as an agency for the District for financing the costs of school building facilities. The members of the Board also comprise the Corporation's Board of Directors.

## **Basis of Presentation**

### Government-wide Financial Statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. Eliminations have been made to minimize the effect of interfund activities.

The government-wide statements are prepared using the economic resources measurement focus. This approach differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, includes a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for the governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the statement of activities. Program revenues include charges paid by the recipients of goods or services offered by a program, as well as grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

### Fund Financial Statements:

Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major governmental fund is presented in a separate column, and all non-major funds are aggregated into one column. Fiduciary funds are reported by fund type.

The accounting and financial treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balances for these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Agency funds have no measurement focus.

## **Basis of Accounting**

Basis of account refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Agency funds use the accrual basis of accounting.

**Notes to the Basic Financial Statements – Continued**

June 30, 2008

**Revenues – Exchange and Non-exchange Transactions:**

Revenue resulting from exchange transactions, in which each part gives and receives essentially equal value, is recorded under the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. “Available” means the resources will be collected with the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, “available” means collectible within the current period or within 60 days after year-end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, and entitlements. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Eligibility requirements include timing requirements, which specify the year when the resources are to be used or the fiscal year when use is first permitted; matching requirement, in which the District must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

**Deferred revenue:**

Deferred revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred revenue. On governmental fund financial statements, receivables associated with nonexchange transactions that will not be collected within the availability period have also been recorded as deferred revenue.

**Expenses/Expenditures:**

Using the accrual basis of accounting, expenses are recognized at the time a liability is incurred. In the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of cost, such as depreciation and amortizations, are not recognized in the governmental funds. When both restricted and unrestricted resources are available for use, it is the District’s policy to use restricted resources first, then unrestricted resources as they are needed.

**Fund Accounting**

The accounts of the District are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity or retained earnings, revenues, and expenditures or expenses as appropriate. The District’s resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The District’s accounts are organized into major, non-major, and fiduciary funds as follows:

**Notes to the Basic Financial Statements – Continued**

June 30, 2008

**Major Governmental Funds:**

The General Fund – The general fund is the District's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds – The District accounts for resources restricted to, or designated for, specific purposes by the District or a grantor in a special revenue fund. Most Federal and some State financial assistance is accounted for in a Special Revenue Fund, and sometimes unused balances must be returned to the grantor at the close of specified project periods.

Building Fund – The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the district's facility plan.

Construction (Capital Projects) Fund – The proceeds from long-term debt financing and revenues and expenditures related to authorized construction and other capital asset acquisitions are accounted for in a capital projects fund.

**Non-major Governmental Funds:**

Capital Outlay Fund – The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the district's facility plan.

Debt Service Funds – The District accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds in a debt service fund.

**Fiduciary Funds:**

Agency Fund – The District accounts for activities of student groups and others in a custodial capacity in agency funds. These funds are accounted for in accordance with the Uniform Program of Accounting for School Activity Funds.

**Proprietary Funds:**

The Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The Food Service Fund is a major fund.

The Daycare fund is used to account for revenues and expenses related to services provided to daycare services to the surrounding community.

**Encumbrances**

Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. Encumbrances are liquidated when the commitments are paid. All encumbrances are liquidated on June 30.

**Notes to the Basic Financial Statements – Continued**

June 30, 2008

**Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the District's Management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the general purpose financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**Assets, Liabilities, and Equity**

**Cash and Investments**

Cash balances held in banks and in revolving funds are insured to \$100,000 by the Federal Deposit Insurance Corporation.

The District is authorized to deposit cash and invest excess fund pursuant to the regulations set forth by Kentucky Revised Statute. The funds maintained by the District are either secured by federal depository insurance or are collateralized.

Investments are reported at fair value which is determined using selected bases. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Managed funds are related to the retirement systems not listed on an established market are reported at estimated fair value as determined by the respective fund managers based on quoted sales prices of the underlying securities. Cash deposits are reported at carrying amount which reasonably estimates fair value. Additional cash and investment information, and fair values are presented in Note B.

**Inventories and Prepaid Expenditures**

*Inventories*

Inventories are recorded using the purchases method, in that inventory acquisitions are initially recorded as expenditures. Reported inventories are equally offset by a fund balance reserve, which indicates that these amounts are not "available for appropriation and expenditure" even though they are a component of net current assets. The District's inventory is valued at cost and consists of expendable supplies held for consumption.

*Prepaid Expenditures*

The District has the option of reporting expenditures in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditure during the benefiting period, thus recording a prepaid expenditure in the Statement of Net Assets.

Both inventories and prepaids are similarly reported in government-wide and fund financial statements.

**Notes to the Basic Financial Statements – Continued**

June 30, 2008

**Capital Assets**

Capital assets are those purchased or acquired with an original cost of \$1,000 or more and are reported at historical cost or estimated historical costs. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the asset's lives are not capitalized, but are expensed as incurred. Depreciation on all capital assets is computed using a straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations. Estimated useful lives, in years, for depreciation assets are as follows:

<u>Description</u>	<u>Estimated Useful Lives in Years</u>
Buildings and improvements	25 – 50
Land improvements	20
Technology equipment	5
Vehicles	5 – 10
Audio-visual equipment	15
Food service equipment	10 – 12
Furniture and fixtures	7
Rolling stock	15
Other	10

**Deferred Revenue**

Cash received for federal and state special project and programs is recognized as revenue to the extent that qualified expenditures have been incurred. Deferred revenue is recorded to the extent that cash received on specific projects and programs exceeds qualified expenditures.

**Compensated Absences**

Employees are allowed to accrue ten days of sick leave each year without limit. Since the employees' accumulating rights to receive compensation for future absences are contingent upon the absences being caused by future illnesses and such amounts cannot be reasonably estimated, a liability for unused sick leave is not recorded in the financial statements.

Teachers and administrative personnel do not receive paid vacations but are paid only for the number of days they are required to work each year (180 days for teachers and 240 days for administrative personnel).

Maintenance employees are granted vacation leave in varying amounts. In the event of termination an employee is reimbursed for any unused accumulated leave. The District has no liability for unused vacation pay since all vacation leave is used or lost if not taken each year. Vacation pay is charged to operations when taken by the employees of the District.

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District's past experience of making termination payments.

**Notes to the Basic Financial Statements – Continued**

June 30, 2008

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums and discounts as well as issuance costs are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of applicable bond premium or discount. Bond issuance costs are reported as prepaid expenditures and amortized over the term of the related debt.

In the fund financial statements, governmental funds recognize bond premiums and discounts as well as bond issuance costs during the current period. The face amounts of the debt issued, premiums, or discounts are reported as other financing sources/uses.

Fund Balance Reserves and Designations

Reservations of the ending fund balance indicate the portions of fund balance not appropriable for expenditure or amounts legally segregated for a specific future use. The reserves for revolving fund, inventory, prepaid expenditures, and legally restricted balances reflect the portions of fund balance represented by each respective account. These amounts are not available for appropriation and expenditure at the balance sheet date.

Designations of the ending fund balance indicate tentative plans for financial resource utilization in a future period.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitation imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, laws or regulations of other governments. The District applies restricted resources when an expense is incurred for purposed for which both restricted and unrestricted net assets are available.

Revenue Limit/Property Tax

The District's revenue limit is received from a combination of local property taxes, state apportionments, and other local sources.

The county is responsible for assessing, collecting, and apportioning property taxes. Taxes are levied for each fiscal year on taxable real and personal property in the county. The levy is based on the assessed values as of the preceding January 1, which is also the lien date. Property taxes on the secured roll are due on November 1, and become delinquent February 1. Property tax revenues are considered available (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the school fiscal year. The assessed value of the certified roll, upon which the levy for the 2007 fiscal year was based upon, was in excess of \$40.8 million.

Taxes are due on November 1 and become delinquent by February 1 following the October 1 levy date. Current tax collections for the year ended June 30, 2008 were 93% of the tax levy.

The property tax rates assessed for the year ended June 30, 2008, to finance the General Fund operations were \$.431 per \$100 valuation for real property, \$.431 per \$100 valuation for business personal property, and \$.509 per \$100 valuation for motor vehicles.



## Notes to the Basic Financial Statements – Continued

June 30, 2008

The District levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishing, within the county, of telephonic and telegraphic communications services, cablevision services, electric power, water, and natural, artificial and mixed gas.

### Risk Management

The district is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for workers' compensation, errors and omissions, and general liability coverage, the District purchases insurance coverage, from a private insurance agent, through a cooperative on a competitive bidding basis.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss.

There were no significant reductions in insurance coverage in the current fiscal year. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

### Interfund Transactions

Interfund transactions are reported as either loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivable and payable, as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers among governmental funds are eliminated in the government-wide financial statements.

## **Note B – Cash and Investments**

For discussion of adopted deposit and investment policy and other related information, see Note A.

### *Deposits*

**Custodial credit risk** for deposits is the risk that in the event of a bank failure, the District's deposits may not be returned or the District will not be able to recover collateral securities in the possession of an outside party. The District's policy requires deposits to be 100 percent secured by collateral valued at market or par, whichever is lower, less the amount covered by the Federal Deposit Insurance Corporation (FDIC). Deposited funds may be invested in certificates of deposit in institutions with an established record of fiscal health and service, as determined by a rating of C minus or above by independent rating agencies. Collateral agreements must be approved prior to deposit of funds as provided by law. The District council approves and designates a list of authorized depository institutions based on evaluation of solicited responses and certifications provided by financial institutions and recommendations of an evaluation committee or the District treasurer, or both. **Custodial credit risk** for deposits is not formally addressed by bond indentures or pension trust policy. Indentures require that restricted deposits be maintained by the trustee bank specified in the indenture. Pension trust investment policy restricts uninvested cash to minimal balances generally covered by the FDIC.

Deposits of the District's reporting entity are insured or collateralized with securities held by the District, its agent, or by the pledging financial institution's trust department or agent in the name of the District or applicable public trust.

**Notes to the Basic Financial Statements – Continued**

June 30, 2008

**Note C – Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2008, was as follows:

Governmental Activities	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
Land	\$ 712,555	\$ -	\$ -	\$ 712,555
Buildings and improvements	5,338,747	5,800	-	5,344,547
Technology Equipment	711,603	2,386	-	713,989
Vehicles	487,259	93,011	-	580,270
General equipment	245,763	-	-	245,763
Construction in progress	-	-	-	-
Totals at historical cost	<u>7,495,927</u>	<u>101,197</u>	<u>-</u>	<u>7,597,124</u>
Less: accumulated depreciation				
Buildings and improvements	3,114,865	115,339	-	3,230,204
Technology Equipment	626,333	30,370	-	656,703
Vehicles	352,277	34,922	-	387,199
General equipment	202,536	12,644	-	215,180
Total accumulated depreciation	<u>4,296,011</u>	<u>193,275</u>	<u>-</u>	<u>4,489,286</u>
Governmental Activities Capital Assets - Net	<u>\$ 3,199,916</u>	<u>\$ (92,078)</u>	<u>\$ -</u>	<u>\$ 3,107,838</u>
Business-Type Activities				
Food service and equipment	\$ 223,738	\$ -	\$ -	\$ 223,738
Totals at historical cost	<u>223,738</u>	<u>-</u>	<u>-</u>	<u>223,738</u>
Less: accumulated depreciation				
Food service and equipment	150,722	7,737	-	158,459
Total accumulated depreciation	<u>150,722</u>	<u>7,737</u>	<u>-</u>	<u>158,459</u>
Business-Type Activities Capital Assets - Net	<u>\$ 73,015</u>	<u>\$ (7,737)</u>	<u>\$ -</u>	<u>\$ 65,279</u>

Depreciation expense was charged to governmental activities as follows:

Governmental Activities Depreciation Expense by Function

Instruction	\$ 16,998
Support services	
Student	1,552
Instruction staff	1,858
District administration	8,090
School administration	2,173
Business support services	531
Plant operation and maintenance	119,484
Student transportation	30,923
Central Office	11,291
Community services	375
	<u>\$ 193,275</u>

Hazard Independent School District  
**Notes to the Basic Financial Statements – Continued**  
June 30, 2008

**Note D – Bonded Debt**

The original amount of each issue, the issue date, and interest rates and summary of changes are summarized below:

Maturity	Interest Rates	Original Issue	Principal Balance 7/1/2007	Debt Issued	Debt Paid	Principal Balance 6/30/2008	Due Within One Year
Mar-11	5.00 to 5.20%	\$ 4,110,000	\$ 570,000	\$ -	\$ 130,000	\$ 440,000	\$ 140,000
Jun-19	3.85 to 4.95%	321,000	226,000	-	14,000	212,000	15,000
Sep-22	3.75 to 4.15%	3,815,000	2,770,000	-	20,000	2,750,000	20,000
Nov-11	0%	161,000	144,900	-	32,200	112,700	32,200
Mar-10	4.30 to 5.30%	\$ 108,925	\$ 33,981	\$ -	\$ 12,169	\$ 21,812	\$ 10,640
Mar-13	2.00 to 3.90%	39,338	23,243	-	3,822	19,421	3,926
Mar-14	1.00 to 3.50%	119,815	82,427	-	11,450	70,977	11,754
Mar-15	3.00 to 3.625%	133,426	105,296	-	12,382	92,914	12,767
Mar-18	3.00 to 3.75%	93,011	-	93,011	-	93,011	9,476
			102,515	89,243	-	191,758	-
						\$ 4,004,593	\$ 255,763

Payments on the General Obligation Bonds are made from the Debt Service Fund using local revenues and SFCC Contributions. Compensated absences are paid by the general fund.

In connection with the school revenue bonds issued after May 1, 1989 the District entered into “participation agreements” with the School Facility Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues. The liability for the total bond amount remains with the District and, as such, to total principal outstanding has been recorded in the financial statements.

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligation of the District, including amounts to be paid by the Commission, at June 30, 2008 for debt service (principal and interest) are as follows:

Fiscal Year	SFCC		District			
Ending June 30,	Interest	Principal	Interest	Principal	Total	
2009	\$ 9,828	\$ 23,524	\$ 124,785	\$ 183,676	\$ 341,812	
2010	9,082	16,000	116,910	197,200	339,192	
2011	8,323	17,000	108,583	207,200	341,106	
2012	7,573	17,000	100,880	196,100	321,553	
2013	6,750	18,000	94,036	185,000	303,786	
2014 - 2018	19,369	105,000	356,204	1,055,000	1,535,574	
2019-2023	594	24,000	130,883	1,270,000	1,425,477	
	<u>\$ 61,519</u>	<u>\$ 220,524</u>	<u>\$ 1,032,281</u>	<u>\$ 3,294,176</u>	<u>\$ 4,608,500</u>	

**Notes to the Basic Financial Statements – Continued**

June 30, 2008

**KISTA Bonds:**

Fiscal Year Ending June 30,	District Interest	Principal	Total
2009	\$ 10,607	\$ 48,563	\$ 59,170
2010	8,569	50,497	59,066
2011	6,807	38,654	45,461
2012	5,588	39,091	44,679
2013	4,289	38,087	42,376
2014-2018	6,821	83,243	90,064
	<u>\$ 42,681</u>	<u>\$ 298,135</u>	<u>\$ 340,816</u>

**Note E – Lease Obligations**

The District was not entered into any material capital or operating leases as of June 30, 2008

**Note F – Retirement Plans**

The payroll for employees covered under the following plans are as follows:

**The Teachers' Retirement Systems**

*Plan Description* – The Hazard Independent School System contributes to the Teachers' Retirement System of Kentucky (KTRS), a cost sharing, multiple employer defined benefit pension plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems and other public educational agencies in Kentucky.

KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the *Kentucky Revised Statutes* (KRS). KTRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report can be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, Kentucky 40601.

*Funding Policy* – Contribution rates are established by KRS. Members are required to contribute 9.855% of their salaries to KTRS. The Commonwealth of Kentucky is required to contribute 13.105% of salaries. The federal program for any salaries paid by that program pays the matching contributions. KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by Kentucky Department of Education (KDE).

The Hazard Independent School System's total payroll for the year was \$4,366,443. The payroll for employees covered under KTRS was \$4,305,002. For the year ended June 30, 2008, the Commonwealth contributed \$496,528 in matching to KTRS for the benefit of our participating employees. The School District's contributions to KTRS for the year ending June 30, 2008 were \$67,643, which represents those employees covered by federal programs.

**Notes to the Basic Financial Statements – Continued**

June 30, 2008

**County Employees Retirement System**

Employees who work an average of 100 hours per month participate in the County Employees Retirement System of Kentucky (CERS) which is a cost sharing, multiple-employer public employees retirement system created by and operating under Kentucky law. The County Employees Retirement System covers substantially all regular non-certified full-time employees of each county and school board, and any additional local agencies electing to participate. The plan provides for retirement, disability and death benefits. CERS issues a publicly available financial report that includes financial statement and required supplementary information. The report may be obtained in writing from the County Employee Retirement System, 1260 Louisville Road, Perimeter Park West, Frankfort, Kentucky 40601.

Participating employees contribute 5% of the creditable compensation. Employer contribution rates are intended to fund the normal cost of a current basis plus one percent (1%) of unfounded past service costs per annum plus interest at the actuarial assumed rate. Such contribution rates are determined by the Board of Trustees of Kentucky Retirement Systems each biennium. The Board contributed \$44,256 of the employee's compensation during the fiscal year ended June 30, 2008. The Board's required contribution (both withholding and match) for pension obligations to CERS for the fiscal year ended June 30, 2008 has been contributed for the fiscal year.

**Note G – Deficit Operating / Fund Balances**

There are no funds of the District that currently have a deficit fund balance. However, the following funds have operations that resulted in a current year deficit of revenues over expenditures resulting in a corresponding reduction of fund balance:

Food Service Fund	<\$ 26,657>
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**Note H – Transfer of Funds**

Transfers and payments within the reporting entity are substantially for the purposes of subsidizing operating functions, funding capital projects and asset acquisitions, or maintaining debt service on a routine basis. Resources are accumulated in a fund or component unit to support and simplify the administration of various projects or programs.

The government-wide statement of activities eliminates transfers reported within the segregated governmental and business-type activities columns. Only transfers *between* the two columns appear in this statement.

The following schedule reports transfers and payments within the reporting entity:

**Notes to the Basic Financial Statements – Continued**

June 30, 2008

For	From Fund	Amount	To Fund	Amount
Debt Service Payments Matching	General Fund	\$ 84,290	Debt Service Fund Special Revenue Fund	\$ 63,419 \$ 20,871
Interproject Transfer Indirect Cost	Special Revenue Fund	6,302	Special Revenue Fund General Fund	886 5,416
Debt Service Payments	Capital Outlay Fund	36,160	Debt Service Fund	36,160
Debt Service Payments Bus Purchase	Non-Major Fund	339,086	Debt Service Fund General Fund	246,075 93,011
Indirect Cost	Food Service Fund	24,861	General Fund	24,861

**Note I – Commitments and Contingencies****Grant Programs**

In the normal course of operations, the District received grant funds from various Federal and state agencies. The grant programs are subject to audit by agents of the granting authorities the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

**Litigation**

The District is party to various legal proceedings which normally occur in governmental operations. These legal proceedings are not likely to have a material adverse impact on the affected funds of the District.

**Future Construction**

All renovations and construction projects were complete as of June 30, 2008.

**COBRA**

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the school district at risk for a substantial loss (contingency).

**Note J – On-Behalf Payments**

The State of Kentucky makes certain health insurance, life insurance, flexible spending, administrative fees and pension plan payments on behalf of the District for its employees. The District records these payments as both a revenue and expenditure in the General Fund and Food Service Fund based upon percentage of payroll. The total of the on-behalf payments for the fiscal year ended June 30, 2008 was \$1.3 million for the General Fund and \$27,467 for the Food Service Fund. The District is not legally responsible for these contributions.

**Required Supplemental Information**

Hazard Independent School District  
**Budgetary Comparison Schedules**  
Required Supplementary Information  
For the year ended June 30, 2008

	General Fund					Variance with Final Budget Favorable (Unfavorable)
	Budgeted Amounts		Actual GAAP Basis	Adjustments Budget Basis	Actual Budget Basis	
Revenues	Original	Final				
From local sources						
Ad valorem tax	\$ 835,359	\$ 813,000	\$ 878,292	\$ -	\$ 878,292	\$ 65,292
Sales & use tax	351,790	400,000	411,443	-	411,443	11,443
Penalties & interest on tax	200	150	183	-	183	33
Other tax	12,500	8,500	22,750	-	22,750	14,250
Tuition	15,000	10,000	12,950	-	12,950	2,950
Earnings on investments	43,000	50,000	112,356	-	112,356	62,356
Other local revenues	62,650	38,250	152,828	-	152,828	114,578
State sources						
SEEK	3,537,175	3,908,736	3,908,736	-	3,908,736	-
Expenditure Reimbursements	-	-	11,338	-	11,338	11,338
Revenue in lieu of tax	2,000	-	32,839	-	32,839	32,839
On behalf payments	-	-	1,113,052	(1,113,052)	-	-
Total revenues	4,859,674	5,228,636	6,656,767	(1,113,052)	5,543,715	315,079
Expenditures						
Instruction	2,729,577	2,825,610	3,746,065	(776,662)	2,969,403	(143,793)
Support services						
Student	263,462	288,612	289,421	(75,283)	214,138	74,474
Instruction staff	144,915	212,472	207,948	(34,384)	173,564	38,908
District administration	448,119	638,778	437,049	(29,132)	407,917	230,861
School administration	309,785	330,337	388,875	(74,619)	314,256	16,081
Business	343,084	357,666	385,116	(49,049)	336,067	21,599
Plant operation and maintenance	602,607	695,811	661,253	(53,115)	608,138	87,673
Student transportation	155,532	176,565	273,744	(20,808)	252,936	(76,371)
Debt Service	50,911	55,843	-	-	-	55,843
Total expenditures	5,047,992	5,581,694	6,389,471	(1,113,052)	5,276,419	305,275
Excess (deficit) of revenues over expenditures	(188,318)	(353,058)	267,296	-	267,296	620,354
Other Financing Sources (Uses)						
Proceeds of long-term capital-related debt	-	4,229	(2,488)	-	(2,488)	(6,717)
Gain (Loss) on sale of equipment	-	-	59,256	-	59,256	59,256
Operating transfers in	23,500	32,590	123,288	-	123,288	90,698
Operating transfers out	(18,363)	(20,000)	(84,290)	-	(84,290)	(64,290)
Total other financing sources (uses)	5,137	16,819	95,766	-	95,766	78,947
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	(183,181)	(336,239)	363,062	-	363,062	699,301
Fund balance, beginning	417,567	682,477	702,028	-	702,028	19,551
Fund balance, ending	\$ 234,386	\$ 346,238	\$ 1,065,090	\$ -	\$ 1,065,090	\$ 718,852

The accompanying notes to the required supplementary schedules are an integral part of these financial statements.



Hazard Independent School District  
**Budgetary Comparison Schedules**  
 Required Supplementary Information  
 For the year ended June 30, 2008

	Special Revenue Fund					Variance
	Budgeted Amounts		Actual	Adjustments	Actual	Budget
	Original	Final	GAAP	Budget	Budget	Favorable
			Basis	Basis	Basis	(Unfavorable)
<b>Revenues</b>						
From local sources						
Earnings on investments	\$ 1,925	\$ 347	\$ 679	\$ -	\$ 679	\$ 332
State sources						
Other	1,985,632	714,239	636,056	-	636,056	(78,183)
Federal sources						
Restricted through state	2,354,041	771,368	837,445	-	837,445	66,077
<b>Total revenues</b>	<u>4,341,598</u>	<u>1,485,954</u>	<u>1,474,180</u>	<u>-</u>	<u>1,474,180</u>	<u>(11,774)</u>
<b>Expenditures</b>						
Instruction	3,848,124	1,214,116	1,167,230	-	1,167,230	46,886
Support services						
Student	17,518	600	-	-	-	600
Instruction staff	399,884	84,136	115,626	-	115,626	(31,490)
Community service activities	335,305	108,165	105,573	-	105,573	2,592
Facilities acquisition and construction	100,000	100,000	100,000	-	100,000	-
<b>Total expenditures</b>	<u>4,707,831</u>	<u>1,507,017</u>	<u>1,488,429</u>	<u>-</u>	<u>1,488,429</u>	<u>18,588</u>
<b>Excess (deficit) of revenues over expenditures</b>	<u>(366,233)</u>	<u>(21,063)</u>	<u>(14,249)</u>	<u>-</u>	<u>(14,249)</u>	<u>6,814</u>
<b>Other Financing Sources (Uses)</b>						
Operating transfers in	58,483	21,757	21,757	-	21,757	-
Operating transfers out	(6,110)	(694)	(6,302)	-	(6,302)	(5,608)
<b>Total other financing sources (uses)</b>	<u>52,373</u>	<u>21,063</u>	<u>15,455</u>	<u>-</u>	<u>15,455</u>	<u>(5,608)</u>
<b>Excess (deficit) of revenues and other financing sources over expenditures and other financing uses</b>	<u>(313,860)</u>	<u>-</u>	<u>1,206</u>	<u>-</u>	<u>1,206</u>	<u>1,206</u>
<b>Fund balance, beginning</b>	<u>-</u>	<u>-</u>	<u>(1,206)</u>	<u>-</u>	<u>(1,206)</u>	<u>(1,206)</u>
<b>Fund balance, ending</b>	<u>\$ (313,860)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes to the required supplementary schedules are an integral part of these financial statements.

Hazard Independent School District  
**Budgetary Comparison Schedules**

Required Supplementary Information  
For the year ended June 30, 2008

	Capital Outlay Fund					
	Budgeted Amounts		Actual GAAP Basis	Adjustments Budget Basis	Actual Budget Basis	Variance Budget Favorable (Unfavorable)
	Original	Final				
<b>Revenues</b>						
State sources						
Other	\$ 85,160	\$ 83,660	\$ 83,660	\$ -	\$ 83,660	\$ -
<b>Total revenues</b>	<u>85,160</u>	<u>83,660</u>	<u>83,660</u>	<u>-</u>	<u>83,660</u>	<u>-</u>
<b>Expenditures</b>						
Facilities acquisition and constructio	85,160	83,660	-	-	-	83,660
<b>Total expenditures</b>	<u>85,160</u>	<u>83,660</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>83,660</u>
<b>Excess (deficit) of revenues over expet</b>	<u>-</u>	<u>-</u>	<u>83,660</u>	<u>-</u>	<u>83,660</u>	<u>83,660</u>
<b>Other Financing Sources (Uses)</b>						
Operating transfers out	-	-	(36,160)	-	(36,160)	(36,160)
<b>Total other financing sources (use)</b>	<u>-</u>	<u>-</u>	<u>(36,160)</u>	<u>-</u>	<u>(36,160)</u>	<u>(36,160)</u>
<b>Excess (deficit) of revenues and other financing sources over expenditures and other financing uses</b>	<u>-</u>	<u>-</u>	<u>47,500</u>	<u>-</u>	<u>47,500</u>	<u>47,500</u>
<b>Fund balance, beginning</b>	<u>-</u>	<u>-</u>	<u>454,967</u>	<u>-</u>	<u>454,967</u>	<u>454,967</u>
<b>Fund balance, ending</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 502,467</u>	<u>\$ -</u>	<u>\$ 502,467</u>	<u>\$ 502,467</u>

The accompanying notes to the required supplementary schedules are an integral part of these financial statements.

**Notes to the Required Supplementary Information**

June 30, 2008

**Note A – Budgets and Budgetary Accounting**

**Budget Policy and Practice**

The district's budget is prepared according to Kentucky law and is based on the modified accrual basis of accounting. The budget is presented to the District board for review. In June, the District council adopts the annual fiscal year budgets for District operating funds. Once approved, the District council may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations. Special Revenue funds are budgeted on a project-length basis and are also subjected to the council review and approval process. By state law, the District's board must adopt a final budget no later than July 1. The District's board satisfied these requirements.

These budgets are revised by the District's governing board during the year to give consideration to unanticipated income and expenditures. The original and final revised budgets for the General Fund and Special Revenue Fund are presented as Required Supplementary Information. The General Fund's final budgeted expenditures increased by \$ 450,281 from the original budget. The changes from original to final budgets were not material in other funds.

**Basis of Budgeting**

Revenues are budgeted by source. Expenditures are budgeted by department and class as follows: Instruction, Support Services, Community Service Activities, Facilities Acquisition and Construction and Debt Service. Budget revisions at this level are managed administratively and reported to the District board. The legal level of control is by department within a fund. Expenditures may not exceed appropriations at this level. Within these control levels, management may transfer appropriations without council approval. Revisions to the budget were made throughout the year.

The budgets for the operating funds and proprietary fund operations are prepared on a basis consistent with generally accepted accounting principles for all government funds, except for the Debt Service Fund. A legally adopted budget is not required for this fund. The budget and actual financial statements are reported on these bases. Unencumbered appropriations for annually budgeted funds lapse at fiscal year-end.

**Note B – Excess of Expenditures over Appropriations**

The District did not budget appropriations, in the General Fund, for on-behalf payments provided by the Kentucky Department of Education because they were not measurable at the time of budgeting. Therefore, these expenditures were adjusted out of the actual basis to mirror actual budget basis for review.

As of June 30, 2008, expenditures exceeded appropriation in individual funds as follows:

**Notes to the Required Supplementary Information - Continued**

June 30, 2008

Appropriations Category	Excess Expenditures	Explanation
General Fund:		
Instruction	143,793	Salary reclassification
Support services		
Student transportation	76,371	Rise in transportation cost not budgeted for
Special Revenue Fund:		
Support services		
		Budgetary process of project budgeting. The entire budget is in the first year of the project and all expenditures after that are
Instruction staff	31,490	"unbudgeted" because of timing.

**Other Supplemental Information**

Hazard Independent School District

**Combining Balance Sheet - Nonmajor Governmental Funds**

For the year ended June 30, 2008

	Building	Construction Fund	Debt Service Fund	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 149,471	\$ 10,149	\$ -	\$ 159,620
Prepaid debt service	-	-	95,707	95,707
<b>Total assets</b>	<u>\$ 149,471</u>	<u>\$ 10,149</u>	<u>\$ 95,707</u>	<u>\$ 255,327</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities</b>				
<b>Total liabilities</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Fund Balances</b>				
Reserved for:				
Capital Outlay	149,471	10,149	-	159,620
Bonded debt payments	-	-	95,707	95,707
<b>Total fund balances</b>	<u>149,471</u>	<u>10,149</u>	<u>95,707</u>	<u>255,327</u>
<b>Total liabilities and fund balances</b>	<u>\$ 149,471</u>	<u>\$ 10,149</u>	<u>\$ 95,707</u>	<u>\$ 255,327</u>

The accompanying notes to the other supplementary schedules are an integral part of these financial statements.

Hazard Independent School District

**Combining Statement of Revenues, Expenditures, and Changes in Fund Balance - Nonmajor Governmental Funds**

For the year ended June 30, 2008

	Building Fund	Construction Fund	Debt Service Fund	Total Nonmajor Funds
<b>Revenues</b>				
From local sources				
Ad valorem tax	\$ 103,112	\$ -	\$ -	\$ 103,112
Earnings on investments	-	711	-	711
State sources				
Other	163,345	-	-	163,345
SFCC	-	-	41,528	41,528
<b>Total revenues</b>	<u>266,457</u>	<u>711</u>	<u>41,528</u>	<u>308,696</u>
<b>Expenditures</b>				
Facilities acquisition and construction	-	3,916	-	3,916
Debt Service	-	-	387,182	387,182
<b>Total expenditures</b>	<u>-</u>	<u>3,916</u>	<u>387,182</u>	<u>391,098</u>
<b>Excess (deficit) of revenues over expenditures</b>	<u>266,457</u>	<u>(3,205)</u>	<u>(345,654)</u>	<u>(82,402)</u>
<b>Other Financing Sources (Uses)</b>				
Proceeds of long-term capital-related debt	-	-	93,011	93,011
Operating transfers in	-	-	345,654	345,654
Operating transfers out	(246,075)	-	(93,011)	(339,086)
<b>Total other financing sources (uses)</b>	<u>(246,075)</u>	<u>-</u>	<u>345,654</u>	<u>99,579</u>
<b>Excess (deficit) of revenues and other financing sources over expenditures and other financing uses</b>	<u>20,382</u>	<u>(3,205)</u>	<u>-</u>	<u>17,177</u>
<b>Fund balance, beginning</b>	<u>129,089</u>	<u>13,354</u>	<u>95,707</u>	<u>238,150</u>
<b>Fund balance, ending</b>	<u>\$ 149,471</u>	<u>\$ 10,149</u>	<u>\$ 95,707</u>	<u>\$ 255,327</u>

The accompanying notes to the other supplementary schedules are an integral part of these financial statements.

Hazard Independent School District  
**Budgetary Comparison Schedules**  
Other Supplementary Information  
For the year ended June 30, 2008

	Building Fund					Variance Budget Favorable (Unfavorable)
	Budgeted Amounts		Actual GAAP Basis	Adjustments Budget Basis	Actual Budget Basis	
	Original	Final				
<b>Revenues</b>						
From local sources	\$ 103,211	\$ 103,112	\$ 103,112	\$ -	\$ 103,112	\$ -
Ad valorem tax						
State sources						
Other	168,023	163,345	163,345	-	163,345	-
<b>Total revenues</b>	<u>271,234</u>	<u>266,457</u>	<u>266,457</u>	<u>-</u>	<u>266,457</u>	<u>-</u>
<b>Expenditures</b>						
Facilities acquisition and construction	-	20,382	-	-	-	20,382
Debt Service	271,234	246,075	-	-	-	246,075
<b>Total expenditures</b>	<u>271,234</u>	<u>266,457</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>266,457</u>
<b>Excess (deficit) of revenues over expenditures</b>	<u>-</u>	<u>-</u>	<u>266,457</u>	<u>-</u>	<u>266,457</u>	<u>266,457</u>
<b>Other Financing Sources (Uses)</b>						
Operating transfers out	-	-	(246,075)	-	(246,075)	(246,075)
<b>Total other financing sources (uses)</b>	<u>-</u>	<u>-</u>	<u>(246,075)</u>	<u>-</u>	<u>(246,075)</u>	<u>(246,075)</u>
<b>Excess (deficit) of revenues and other financing sources over expenditures and other financing uses</b>	<u>-</u>	<u>-</u>	<u>20,382</u>	<u>-</u>	<u>20,382</u>	<u>20,382</u>
<b>Fund balance, beginning</b>	<u>-</u>	<u>-</u>	<u>129,089</u>	<u>-</u>	<u>129,089</u>	<u>129,089</u>
<b>Fund balance, ending</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 149,471</u>	<u>\$ -</u>	<u>\$ 149,471</u>	<u>\$ 149,471</u>

The accompanying notes to the other supplementary schedules are an integral part of these financial statements.



Hazard Independent School District  
**Budgetary Comparison Schedules**  
Other Supplementary Information  
For the year ended June 30, 2008

	Construction Fund						Variance
	Budgeted Amounts		Actual	Adjustments	Actual	Budget	
	Original	Final	GAAP	Budget	Budget	Favorable	
			Basis	Basis	Basis	(Unfavorable)	
<b>Revenues</b>							
From local sources							
Earnings on investments	\$ -	\$ -	\$ 711	\$ -	\$ 711	\$ 711	
<b>Total revenues</b>	-	-	711	-	711	711	
<b>Expenditures</b>							
Facilities acquisition and construction	-	-	3,916	-	3,916	(3,916)	
<b>Total expenditures</b>	-	-	3,916	-	3,916	(3,916)	
<b>Excess (deficit) of revenues over expendi</b>	-	-	(3,205)	-	(3,205)	(3,205)	
<b>Other Financing Sources (Uses)</b>							
<b>Total other financing sources (uses)</b>	-	-	-	-	-	-	
<b>Excess (deficit) of revenues and other financing sources over expenditures and other financing uses</b>	-	-	(3,205)	-	(3,205)	(3,205)	
<b>Fund balance, beginning</b>	-	-	13,354	-	13,354	13,354	
<b>Fund balance, ending</b>	\$ -	\$ -	\$ 10,149	\$ -	\$ 10,149	\$ 10,149	

The accompanying notes to the other supplementary schedules are an integral part of these financial statements.

Hazard Independent School District

**Statement of Revenues, Expenditures and Changes in Fund Balance - Elementary Schools**

For the year ended June 30, 2008

	Fund Balance July 1, 2007	Receipts	Disbursement	Transfer In	Transfer Out	Fund Balance June 30, 2008
Roy G. Eversole Middle School	\$ 24,538	\$ 165,159	\$ 168,314	\$ -	\$ -	\$ 21,383
Walkertown - Lothair Primary	\$ 35,330	143,483	141,816	-	-	36,997
Hazard High School	13,999	564,825	560,301	-	-	18,523
Total	<u>\$ 73,867</u>	<u>\$ 873,467</u>	<u>\$ 870,431</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 76,903</u>

The accompanying notes to the other supplementary schedules are an integral part of these financial statements.

Hazard Independent School District

**Statement of Revenues, Expenditures and Changes in Fund Balance - Hazard High School**

For the year ended June 30, 2008

	Fund Balance July 1, 2007	Receipts	Disbursement	Fund Balance June 30, 2008
Academics	\$ 26	\$ 12,735	\$ 12,229	\$ 532
Account for Ticket Sales	-	6,216	6,216	-
All "A" State Tournament	-	50,115	50,076	39
Amanda Worley Memorial				
Jr. Fund	-	500	-	500
AP Exams	600	1,650	2,250	-
Athletic Account	-	988	988	-
Baseball	-	45,596	43,758	1,838
Biology	41	2,180	2,182	39
Boys Basketball	-	74,437	74,437	-
Bulldogs Against Destructive				
D	265	225	280	210
Camp Fee for Cheerleading	-	9,649	9,649	-
Cap & Gown Fund	-	250	58	192
Chairs Fundraiser for Gym				
Chairs	-	1,950	1,938	12
Chandaranda, Das, Batra				
Science	600	500	1,050	50
Cheerleaders	-	10,478	10,320	158
Chorus	70	890	960	-
Class of 2008	32	13	45	-
Class of 2009	3	127	-	130
Class of 2010	240	-	-	240
Coca-Cola Scholarship	-	2,000	2,000	-
Coffee & Flowers	-	423	329	94
Concession	114	212	300	26
Costa Rica Fundraisers	190	1,255	1,445	-
CV Cooper Memorial Fund	-	10,093	10,055	38
Dr. Cooley Combs & Jim				
Combs	2	-	-	2
Dustin Buckner	501	500	1,000	1
Emma B. Ross Scholarship	-	750	500	250
Football	2,432	71,262	70,204	3,490
Freshman Trip	-	9,663	9,656	7
FYRSC	-	1,904	1,223	681
General	283	26,001	26,243	41
Girls Basketball	27	28,640	28,660	7
Girls Basketball Alaska Trip	-	593	-	593
Golf	-	1,335	1,055	280
Hall Family Scholarship	-	300	300	-
History Club	-	156	156	-
Home Economics	79	861	900	40

The accompanying notes to the other supplementary schedules are an integral part of these financial statements.

Hazard Independent School District

**Statement of Revenues, Expenditures and Changes in Fund Balance - Hazard High School**

For the year ended June 30, 2008

	Fund Balance July 1, 2007	Receipts	Disbursement	Fund Balance June 30, 2008
Homecoming, Sweetheart, Etc	-	1,963	1,963	-
ICP	-	478	478	-
Junior Class Trip	133	53,429	53,562	-
Laptop Insurance	-	60	-	60
Las Vegas Flight Tickets for Boys Basketball	-	37,368	37,368	-
Lee Ann Toyler Memorial	100	200	300	-
Library Account	-	6,867	6,661	206
Memorial Fund	-	250	250	-
Middle School Boys Basketball	25	514	536	3
Middle School Girls Basketball	-	4,004	3,782	222
National Honor Society	266	1,307	1,546	27
Newspaper	45	20	-	65
Peoples Bank & Trust	1,250	500	1,000	750
Prom / After Prom	-	14,946	14,946	-
Retailing	35	-	-	35
School Picture Account	-	1,390	1,390	-
Senior Class Trip	-	36,963	36,960	3
Senior Reception	1	645	619	27
Softball	-	12,200	12,179	21
Sophomore Class Trip	-	24,272	24,272	-
Spanish Club	-	5,508	5,508	-
Speech	249	7,957	6,756	1,450
Student Business Fund	24	-	24	-
Technical Education	-	3,197	3,097	100
Tennis	128	300	402	26
Textbook	55	5,817	5,872	-
Track	-	35	-	35
United Nations Student Alliance	-	70	70	-
Volleyball	-	8,627	8,554	73
Waldon Darb Napier	-	3,600	3,600	-
Year Book	6,183	7,786	8,039	5,930
Interfund Transfers		(49,895)	(49,895)	
Total	\$ 13,999	\$ 564,825	\$ 560,301	\$ 18,523

The accompanying notes to the other supplementary schedules are an integral part of these financial statements.

**Schedule of Expenditures of Federal Awards**

For the year ended June 30, 2008

Federal Grantor/ Pass Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	Disbursements	Total per CFDA / Cluster	Total Per Department
<b><u>U.S. Department of Agriculture:</u></b>						
<b><u>Passed through State Department of Education:</u></b>						
Food Donation	10.550	-	\$ 32,236	\$ 32,236	\$ 32,236	
Total Donation						
School Breakfast Program	10.553	7760005-07	14,241	14,241		
School Breakfast Program	10.553	7760005-08	40,286	40,286		
National School Lunch Program	10.555	7750002-07	45,713	45,713		
National School Lunch Program	10.555	7750002-08	123,622	123,622		
State Match	10.555	7750008-08	5,043	5,043		
Summer Food Service Program for Children	10.559	7690024-07	2,045	2,045		
Summer Food Service Program for Children	10.559	7740023-07	19,935	19,935		
Total Child Nutrition Cluster				250,885		
<b>Total U.S. Department of Agriculture</b>					\$ 283,121	
<b><u>U.S. Department of Commerce</u></b>						
<b><u>Passed Through State Department of Education:</u></b>						
PRIDE - Environmental Education	11.420	-	2,534	75	75	75
Total PRIDE - Environmental Education						
<b>Total U.S. Department of Commerce</b>						
<b><u>U.S. Department of Labor</u></b>						
<b><u>Passed Through State Department of Education:</u></b>						
WIA Dislocated Workers	17.260	274SR08-07	23,520	23,500	23,500	23,500
Total WIA Dislocated Workers						
<b>Total U.S. Department of Labor</b>						
<b><u>Appalachian Regional Commission</u></b>						
<b><u>Passed Through State Department of Education:</u></b>						
Appalachian Research, Technical Assistance and Demonstration Projects	23.011	-	5,000	4,640	4,640	4,640
Total Appalachian Research, Technical Assistance and Demonstration Projects						
<b>Total Appalachian Regional Commission</b>						

The accompanying notes to the other supplementary schedules are an integral part of these financial statements.

**Schedule of Expenditures of Federal Awards**

For the year ended June 30, 2008

Federal Grantor/ Pass Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	Disbursements	Total per CFDA / Cluster	Total Per Department
<b><u>U.S. Department of Education</u></b>						
<b><i>Passed Through State Department of Education:</i></b>						
Title I Grant to Local Educational Agencies	84.010	3100002-06	399,726	38,789		
Title I Grant to Local Educational Agencies	84.010	3100002-07	394,587	394,587	433,376	
Total Title I Grant to Local Educational Agencies						
Special Education - Grants to States (IDEA, Part B)	84.027	3810002-07	192,178	177,271		
Special Education - Preschool Grants (IDEA Preschool)	84.173	3800002-06	29,896	16,270		
Special Education - Preschool Grants (IDEA Preschool)	84.173	3800002-07	27,689	26,509		
Total Special Education Cluster					220,050	
Vocational Education - Basic Grants to States	84.048	3100002-07	12,697	3,037		
Vocational Education - Basic Grants to States	84.048	3100002-08	11,911	11,911	14,948	
Total Vocational Education - Basic Grants to States						
Safe and Drug-Free Schools and Communities -- State Grants	84.186	3410002-06	6,952	3,073		
Safe and Drug-Free Schools and Communities -- State Grants	84.186	3410002-07	6,846	4,773		
Total Safe and Drug Free Schools					7,846	
State Grants for Innovative Programs	84.298	3500002-07	1,325	1,325		
Total State Grants for Innovative Programs					1,325	
Education Technology State Grants	84.318	3210002-07	3,945	3,945		
Total Education Technology State Grants					3,945	
Rural Education	84.358	3140002-07	27,726	19,589		
Rural Education	84.358	3140002-08	28,468	16,309		
Total Rural Education					35,898	
Improving Teacher Quality State Grants	84.367	3230002-07	80,899	80,136		
Total Improving Teacher Quality State Grants					80,136	
<b>Total U.S. Department of Education</b>						797,523
<b>Total Expenditures of Federal Awards</b>						<b>\$ 1,108,858</b>

The accompanying notes to the other supplementary schedules are an integral part of these financial statements.

Hazard Independent School District

**Notes to Schedule of Expenditures of Federal Awards**

For the Year Ended June 30, 2008

**Note A –Basis of Presentation**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**Note B – Food Distribution**

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. At June 30, 2008, the District had received food commodities totaling \$32,236 in inventory. Since the district no longer tracks commodities individually, all commodities received are considered expended.

Hazard Independent School District

**Board Members and Administration Personnel**

For the Year Ended June 30, 2008

**Board Members**

**Address**

Elmer Gabbard, Jr.

446 Main Street, Suite 3  
Hazard, KY 41701

Aster Sizemore

159 Woodland Avenue  
Hazard, KY 41701

Dennis Smith

249 Moore Street  
Hazard, KY 41701

Lisa Townes

100 Hall Street  
Hazard, KY 41701

Grady Varney

401 Skyline Drive  
Hazard, KY 41701

**Administrative Personnel**

Sandra Johnson, Superintendent

Regina Cornett, Finance Officer

**Web-site**

[www.hazard.k12.ky.us](http://www.hazard.k12.ky.us)

**District Address**

705 East Main Street  
Hazard, Kentucky 41701  
(606) 436-3911  
(606) 436-2742 fax





***Gaw & Associates, PLLC***  
CERTIFIED PUBLIC ACCOUNTANTS

**Report on Internal Control Over Financial Reporting and on Compliance and Other Matters  
Based on An Audit of Financial Statements Performed in Accordance with Government Auditing  
Standards**

To the Board of Education  
Hazard Independent School District

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Hazard Independent School District, as of and for the year ended June 30, 2008 which collectively comprise the Hazard Independent School District's basic financial statements and have issued our report thereon dated October 31, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations* and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Guide for Auditing Local School Districts' Fiscal Records*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Hazard Independent School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Hazard Independent School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, or prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting. (2008-01 thru 2008-04)

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Hazard Independent School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or state audit requirements.

We noted certain matters that we reported to management of Hazard Independent School District in a separate letter dated October 31, 2008

Hazard Independent School District's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit Hazard Independent School District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, members of the Board of Education, others within the entity, the Kentucky Department of Education and the Kentucky State Committee for School District Audits and is not intended to be and should not be used by anyone other than these specified parties.



Troy A. Gaw, CPA  
Partner

Gaw, & Associates, PLLC  
Harlan, Kentucky

October 31, 2008



***Gaw & Associates, PLLC***  
CERTIFIED PUBLIC ACCOUNTANTS

**Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133**

To the Board of Education  
Hazard Independent School District

**Compliance**

We have audited the compliance of Hazard Independent School District, with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. Hazard Independent School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Hazard Independent School District's management. Our responsibility is to express an opinion on Hazard Independent School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the *Guide for Auditing Local School Districts' Fiscal Records*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Hazard Independent School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Hazard Independent School District's compliance with those requirements.

In our opinion, Hazard Independent School District, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

**Internal Control Over Compliance**

The management of Hazard Independent School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Hazard Independent School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect

noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Hazard Independent School District's response to the finding identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Hazard Independent School District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Education, others within the entity, the Kentucky Department of Education, the Kentucky State Committee for School District Audits, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Troy A. Gaw, CPA  
Partner

Gaw, & Associates, PLLC  
Harlan, Kentucky

October 31, 2008

Hazard Independent School District  
**Schedule of Findings and Questioned Costs**  
For the Year Ended June 30, 2008

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued:	Unqualified
Internal control over financial reporting:	
Material weakness identified?	No
Reportable condition identified	
not considered to be material weakness?	No

Noncompliance material to financial statements noted?	No
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Federal Awards

Internal Control over major programs:	
Material weakness identified?	No
Reportable condition identified no	
Considered to be material weakness?	No

Type of auditor’s report issued on compliance for major programs:	Unqualified
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Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	No
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Identification of major programs:

Name of Federal Program	CFDA Number(s)
Food Donation	10.550
Food Service Cluster	10.553, 10.555, & 10.559

Dollar threshold used to distinguish between Type A and Type B programs:	\$ 300,000
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Auditee qualified as low-risk auditee?	Yes
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**Schedule of Findings and Questioned Costs – Continued**

For the Year Ended June 30, 2008

Matrix on Conditions:

Location	Condition		
	2008-1	2008-3	2008-3
Board Office	X		
High School		X	X
Roy G.		X	X
Walkertown		X	X

**2008-01 Fixed Assets**

- Condition: Fixed assets were not recorded or removed as of the financial statement date.
- Criteria: GASB 34 requires that the district maintain a listing of fixed assets owned by the district and that those assets be depreciated over their useful lives.
- Cause of Condition: Due to the district's finance officer and technology coordinator's inability to put significant time toward this process because of their already overextended time schedule the assets were not completely entered.
- Effect of Condition: A misstatement could occur that causes the financial statements to be materially misstated or assets could be misappropriated.
- Recommendation: It is recommended that the district maintain its asset listing by enlisting someone other than the finance officer or technology coordinator to be responsible for this process.
- Response: Pursuant to the board approval, the district is going to get a valuation company to evaluate the fixed assets for completeness. After this is done, personnel will be assigned to the job that has the time and knowledge to keep the fixed assets complete.

**2008-02 Purchase Order Use – School Activity Funds**

- Condition: Purchase orders are not properly being used.
- Criteria: The District and "Red Book" requires purchase orders to be used on all purchases made with the exception of recurring monthly bills. Purchase orders should be issued before the purchase of the items is obligated.
- Cause of Condition: Purchases are being initiated without proper approval.
- Effect of Condition: This could cause the District to purchase something that is not in the budget or could cause it to run over budget. It could cause the School Activity Fund to purchase items that are not in the budget or items that are unallowable to be purchased. It could even cause an individual activity account to have a negative ending balance due to the expenditure not being calculated for before it was incurred.
- Recommendation: It is recommended that "Red Book" procedures be followed and that all purchases properly use purchase orders.

**Schedule of Findings and Questioned Costs – Continued**

For the Year Ended June 30, 2008

Response: We have currently scheduled “Red Book” training and will discuss these issues and solutions during that training.

**2008-03 Segregation of duties over bank deposits**

Condition: Proper segregation of duties are lacking on the control for bank deposits.

Criteria: “Red Book” requires internal controls exist sufficient to ensure that bank deposits are deposited intact and daily (if over \$100). These controls should included, but are not limited to, (a) each individual check listed on deposit slip, (b) a second party reviewing the deposit slip to ensure that the deposit includes all receipts for the day and signing or initialing the slip, (c) someone other than the person responsible for filling out the deposit ticket, or its review having and having access to the accounting system, taking the deposit to the bank. These controls should also ensure that the deposits are easy to review.

Cause of Condition: Controls consistent to those described in “Red Book” are not consistently being followed.

Effect of Condition: Funds could be misappropriated thru the manipulation of deposit tickets and the accounting system thus creating a system where there would not be a way to detect any such activity as a normal course of business.

Recommendation: It is recommended that “Red Book” procedures be followed and that a proper segregation of duties be instituted.

Response: We have currently scheduled “Red Book” training and will discuss these issues and solutions during that training.

**Section III – Federal Award Findings and Questioned Costs**

There were no findings that related to the federal awards.

Hazard Independent School District  
**Summary Schedule of Prior Audit Findings**  
For the Year Ended June 30, 2008

No finding noted during previous year.



Hazard Independent School District  
**Corrective Action Plan**  
For the Year Ended June 30, 2008

No finding noted for current year.



*Gaw & Associates, PLLC*  
CERTIFIED PUBLIC ACCOUNTANTS

**Management Letter**

To the Board of Education  
Hazard Independent School District

In planning and performing my audit of the financial statements of Hazard Independent School District for the year ended June 30, 2008, I considered the district's internal control structure to determine my auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during my audit, I became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes my comment and suggestions regarding those matters. A separate report dated October 31, 2008, contains my report on reportable conditions and material weaknesses in the district's internal control structure. This letter does not affect my report dated October 31, 2008, on the financial statements of the Hazard Independent School District.

I will review the status of these comments during my next audit engagement. I have already discussed many of these comments and suggestions with various district personnel, and I will be pleased to discuss them in further detail at your convenience, to perform any addition study of these matters, or to assist you in implementing the recommendations.

Troy A. Gaw, CPA  
Partner

Gaw, & Associates, PLLC  
Harlan, Kentucky

October 31, 2008

Hazard Independent School District  
**Schedule of Management Points**  
 For the Year Ended June 30, 2008

Matrix on Conditions:

	Condition								
Location	2008-5	2008-6	2008-7	2008-8	2008-9	2008-10	2008-11	2008-12	2008-13
High School	X	X	X		X	X	X	X	X
Roy G.				X			X		X
Walkertown				X			X		

**2008-05 Invoices not properly approved**

- Condition: Invoices were not being properly approved for payment by the appropriate official.
- Criteria: "Red Book" requires that invoices be approved by payment by the proper official and noted on the invoice by signature or initials.
- Cause of Condition: This is caused by the official either not reviewing the appropriate paper work or by the official reviewing but not identifying this review by proper use of initials or signature.
- Effect of Condition: This could cause an invoice that was not complete or appropriate to be paid.
- Recommendation: It is recommended that "Red Book" procedures be followed and all invoices be reviewed by the appropriate officials and this noted by there signature or initials on each invoice.
- Response: We have currently scheduled "Red Book" training and will discuss these issues and solutions during that training.

**2008-06 Invoices are not properly mutilated**

- Condition: Invoices are not being properly mutilated after payment.
- Criteria: "Red Book" requires that invoices need to be properly mutilated by placing "PAID", check date and check number on the invoice and the invoice filed in an organized manner by month in check order.
- Cause of Condition: This is caused by inconsistent implementation of "Red Book" policies.
- Effect of Condition: Invoices could be paid twice, thus causing a problem of retrieving a refund or not finding the double payment and thus causing a loss of funds.

**Schedule of Management Points – Continued**

For the Year Ended June 30, 2008

Recommendation: It is recommended that “Red Book” procedures be followed and all invoices are marked PAID, check date and check number be placed on the invoices.

Response: We have currently scheduled “Red Book” training and will discuss these issues and solutions during that training.

**2008-07 Invoices**

Condition: Invoices were not available for inspection for all expenditures.

Criteria: “Red Book” requires original vendor invoices or in cases where no invoices available, (i.e. referees) a standard invoice be kept.

Cause of Condition: This could be caused by inconsistent filing of invoices, or lack of keeping proper documentation.

Effect of Condition: This could cause improper payment made by the fund.

Recommendation: It is recommended that “Red Book” procedures be followed and that before a payment is approved for payment that all proper documentation be reviewed and that this documentation be kept and properly filed.

Response: We have currently scheduled “Red Book” training and will discuss these issues and solutions during that training.

**2008-08 Multiple receipt form usage**

Condition: Multiple receipt forms are not being properly used.

Criteria: “Red Book” requires that students in the 3<sup>rd</sup> grade and over sign the multiple receipt form upon turning money into the teacher. Teachers may sign for students in the 2<sup>nd</sup> grade and below.

Cause of Condition: Teachers are not having the students to sign the multiple receipt form or a pre-filled form is being used.

Effect of Condition: This creates a lack of documentation from the student that monies were turned into the teacher.

Recommendation: It is recommended that “Red Book” procedures be followed and that students from the 3<sup>rd</sup> grade and over sign the multiple receipt form and that teachers sign for students from the 2<sup>nd</sup> grade and under.

Response: We have currently scheduled “Red Book” training and will discuss these issues and solutions during that training.

**2008-09 Receipt documentation**

Condition: Documentation is not available for all receipts.

Criteria: “Red Book” requires multiple receipt forms, F-SA-1, or sales forms be available as documentation for all receipts.

Cause of Condition: Improper filing of documentation or lack of attaining proper documentation from the individual turning in money.

**Schedule of Management Points – Continued**

For the Year Ended June 30, 2008

Effect of Condition: Funds could be incomplete or could be appropriated to wrong fund.

Recommendation: It is recommended that “Red Book” procedures be followed and that a multiple receipt form, F-SA-1, or sales form be received with all funds that those forms be filed with the receipts in a way to be easily retrieved.

Response: We have currently scheduled “Red Book” training and will discuss these issues and solutions during that training.

**2008-10 Receipt completion**

Condition: Receipts are not properly being completed.

Criteria: “Red Book” requires that receipts be written by the Central Fund Treasurer to the individual that is turning in money. Proper documentation by the individual should accompany the monies.

Cause of Condition: Receipts are not being properly issued in the individuals name with proper documentation accompanying the money.

Effect of Condition: A lack of documentation could lead to inconsistent treatment of funds and the inability to trace funds.

Recommendation: It is recommended that “Red Book” procedures be followed and that receipts be written to the individual turning in the money and that those funds be accompanied by proper documentation.

Response: We have currently scheduled “Red Book” training and will discuss these issues and solutions during that training.

**2008-11 Check signatures**

Condition: Checks are being issued with only one signature.

Criteria: “Red Book” requires internal control exist sufficient to ensure that checks are not written and distributed without two signatures to ensure correct payment amounts, vendor, etc.

Cause of Condition: Review of check before issuance did not find that checks only had one signature.

Effect of Condition: Funds could be appropriated without the principal or central fund treasurer’s knowledge.

Recommendation: It is recommended that “Red Book” procedures be followed and that all checks issued have two signatures.

Response: We have currently scheduled “Red Book” training and will discuss these issues and solutions during that training.

**2008-12 Ticket Sales**

Condition: Ticket sales and reconciliations were improperly completed.

Criteria: “Red Book” requires that tickets be sold at all events. Further, it requires that a reconciliation be completed and signed by the ticket sales people.

**Schedule of Management Points – Continued**

For the Year Ended June 30, 2008

Cause of Condition: There were either no tickets sold a events or the sales reconciliations were improperly completed.

Effect of Condition: This doesn't give the schools proper control over ticket sales to have oversight over the process.

Recommendation: It is recommended that "Red Book" procedures be followed and that tickets be sold and reconciliations be completed at all events.

Response: We have currently scheduled "Red Book" training and will discuss these issues and solutions during that training.

**2008-13      Advance**

Condition: Improper use of expense and reimbursement report.

Criteria: "Red Book" requires with and advance payment for travel or related activities that receipts documenting expenditures be returned to the central fund treasurer. These receipts are to then be reconciled to the amount advanced and any overage returned to the Central Fund Treasurer and documented with a receipt. While overages are reimbursed and documented with a check number.

Cause of Condition: Either the receipts were not turned into the central fund treasurer or the reconciliation was not properly completed.

Effect of Condition: Advances could be improperly used, overages not returned and deficits not reimbursed.

Recommendation: It is recommended that "Red Book" procedures be followed and that expense and reimbursement reports be properly completed.

Response: We have currently scheduled "Red Book" training and will discuss these issues and solutions during that training.